

City of Cincinnati



*Interdepartmental
Correspondence Sheet*

February 23, 2017

To: Mayor and Members of City Council

From: Harry Black, City Manager *HB*

Subject: Six –Year Income Tax Forecast – University of Cincinnati Economic Center

Attached is a report and presentation from the University of Cincinnati Economic Center for the upcoming FY 2018/2019 Biennial Budget. The report details the updated income tax estimate for the next six years. The Department of Finance relies on the University of Cincinnati as the independent third party to assist with income tax projections.

The report states “Aggregate net income tax revenues are projected to grow at 2.3 percent annually on average from FY 2017 through FY 2022, slightly lower than the average annual rate from 2003 to 2016. While any individual year may deviate from this annual average, realized net revenue growth may be slightly lower or higher, on average the year-over-year growth is anticipated to approximate this annual average compound rate.”

Due to the downward trend of current year income tax collections, the Administration will conservatively use the average growth rate for budget planning purposes. Further adjustments may be made prior to the final proposed budget being released if current revenue trends improve. The Finance Department will also review all other General Fund revenue estimates and make adjustments based on trends and additional information from departments to be included in the proposed budget.

As a result, the updated FY 2018 projected budget deficit is \$25.1 million. This includes the revised income tax estimate reduction of \$14.7 million from the FY 2018 Tentative Tax Budget (TTB). An additional \$1.7 million in target adjustments has also been incorporated into this forecast. This updated forecast does not incorporate proposed state revenue reductions.

To address the budget deficit, various cost savings measures are already under way. The Administration implemented a position freeze in November to generate current year savings as well as create vacancies to address department reductions. Also, I will be recommending that the debt service payments for the Police and Fire Pension Bonds, ERIP Pension Bonds, Focus 52 Bonds and Energy Bonds, which are historically paid from the General Fund, be shifted partially to both the Bond Retirement Fund and the Capital Budget for payment. This shift will reduce the deficit by \$5.1 million.

Other General Fund adjustments are being reviewed to minimize the impact to direct basic services. As part of the budget development process, non public safety departments are asked to identify a 10% budget reduction plan and public safety departments are asked to identify a 3% budget reduction plan as well. As we prepare the Recommended FY 2018 Budget, these reduction plans will be prioritized based on service impact and our goal is to minimize the direct service impact to our citizens.

I am hopeful that the reduction in income tax receipts is only a one time decrease and the city’s receipts continue to grow into the future as the



economic forecaster predicts. However, I am committed to presenting to the Mayor and City Council a structurally balanced FY 2018/2019 Biennial Budget in May.

The University of Cincinnati Economic Center will review the report at the February 27, 2017 Budget and Finance Committee Meeting.

c: Christopher A. Bigham, Budget Director 
Reginald Zeno, Finance Director 

Attachment